Washington State Hospital Association

2023
POLICY BRIEF

Preserve Medicaid Access Through Hospital Assessment Program

Background

Washington State's hospitals are experiencing massive operating losses due to significant increases in the cost of providing care — such as increased labor, supply and energy costs — coupled with stagnant Medicaid, Medicare and commercial payments. A large proportion of these losses are for hospital services to Medicaid patients. Annually hospitals discharged 140,000 Medicaid lives and provided more than 1.8 million outpatient visits. Medicaid hospital payment rates to urban hospitals have not increased in more than 20 years.

In 2020, hospitals were paid 63% of the cost of providing care from Medicaid. A recent report of the state's Joint Legislative Audit and Review Committee (JLARC) estimated the difference between hospital cost and payment for Medicaid services at **$1.4 billion** for SFY 2019. By 2024, WSHA estimates that number will be **about $2 billion**. Washington ranks among the lowest in the country in Medicaid hospital payments. California, Oregon and Colorado all pay a significantly higher proportion of the actual cost of care. Like most other states, these three have also implemented a form of hospital assessment program to provide additional funding to hospitals for Medicaid services.

The losses and underpayments to hospitals from Medicaid are not sustainable. Hospitals have already started to reduce or eliminate services such as labor and delivery, cardiac care and critical care services. These cuts are happening faster in communities with a high percentage of Medicaid enrollees. Without action by the legislature, hospitals will be forced to continue to cut services. These reductions in services will affect everyone, including the commercially insured as well as Medicare and Medicaid enrollees.

Washington State has had a Hospital Safety Net Assessment program in place since 2010. Under this program, assessments paid by hospitals augment state funds by obtaining an additional federal match for Medicaid services. Under the current program, the funds are distributed to hospitals through quarterly lump sum payments from the Health Care Authority and from the Medicaid managed care organizations (MCOs), which receive an enhanced capitation rate. The current and proposed programs are fully funded through assessments on hospitals and the federal match. The Safety Net Assessment requires no additional state funds.

Because of new federal requirements that require the current program to phase down and be eliminated, the current program must be replaced soon to avoid loss of the funding to both hospitals and the state.

The funds provided by the current program have been helpful, but significantly more Medicaid funding is needed to preserve hospital access. WSHA member hospitals estimate they will need at least an additional ***$1.3 billion annually*** in net Medicaid hospital payments to sustain hospital viability. With that level of increase, hospitals would be paid about 82% of costs, a shortfall of $700 million between payment and the actual cost of hospital care would remain.

WSHA Position

WSHA strongly supports replacing the current program with a new expanded directed payment program similar to programs that have been approved by CMS and adopted in many other states. Hospitals would pay significantly increased assessments. The additional federal match payments would help ensure hospital financial viability and support the state's quality and access goals.

Like the existing program, the directed payment program is funded through hospital assessments and federal match and **requires no additional state funds**. The actual net benefit received by hospitals will be significantly smaller than the directed payment amounts since the hospitals are paying hundreds of millions of dollars in new assessments. The new program would continue to fund the Medicaid Quality Incentive Program and integrated primary care and behavioral health residency slots.

Critical access hospitals, children's hospitals, cancer hospitals, psychiatric hospitals and rehabilitation hospitals are included in the program but assessed at a lower rate to ensure they receive proportional financial benefit.

Large public district hospitals would be enrolled in a similar directed program funded through intergovernmental transfers (IGTs) rather than assessments.

Key Messages

- Hospitals are currently in dire financial shape, largely due to the huge gap between payments and the actual cost of providing care to Medicaid patients. JLARC estimates the Medicaid shortfall was $1.4 billion in 2019. WSHA estimates this gap **will grow to $2 billion by 2024**. The new Safety Net Assessment program would start in January 2024 and reduce that gap through increased payments to help ensure access to care for Medicaid patients.
- Washington State Medicaid payments to hospitals are some of the lowest in the country – 43rd lowest. Without significant new funding, hospitals will be forced to continue to reduce and eliminate services for all patients.
- WSHA member hospitals estimate they will need at least an additional ***$1.3 billion annually*** in net Medicaid hospital payments to sustain hospital viability. With that level of increase, hospitals would be paid about 82% of costs. Even with the new funding, a shortfall of $700 million between payments and the actual cost of hospital care would remain.
- The new program would provide additional funds for Medicaid services to hospitals, including nonprofit hospitals, public district hospitals, critical access hospitals, cancer hospitals, children's hospitals, psychiatric hospitals and rehabilitation hospitals. UW Medical Center and Harborview will be under their own similar, but separate, program.
- The program is fully funded through assessments on hospitals and federal match and **requires no additional state funds.**
- Hospitals will not "recover" from this financial challenge without additional funding. The wage increases to staff are permanent and are not supported by Medicaid, Medicare or commercial payments. Other input costs, such as drugs, treatment advances, energy and supplies, also continue to increase more quickly than reimbursements. About 60% of hospital expenses are for employee wages. Hospitals are also unable to cancel traveler contracts without closing vital services. Statewide, hospitals employ about 121,000 people.

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